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March 5, 1998

RECORDATION NO. 21260 FILED

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RECEIVED
SURFACE TRANSPORTATION
BOARD

John H. Doll
Mr. Vernon A. Williams
Secretary
Surface Transportation Board
Washington, D.C. 20423

Dear Mr. Williams:

Counterparts
Enclosed for recordation in your office pursuant to the provisions of 49 U.S.C. §11301 are two original counterparts of a Security Agreement dated as of March 4, 1998 ("Security Agreement"), a primary document as defined in the Surface Transportation Board's Rules for the Recordation of Documents, 49 CFR §1177.

The name and address of the party to the enclosed are as follows:

Debtor: Bangor and Aroostook Railroad Company
Northern Maine Junction Park
RR #2, Box 45
Bangor, Maine 04401-9602

The railroad equipment covered by the enclosed document is designated with particularity in Exhibit A to the Security Agreement being transmitted by this letter.

Enclosed is a check payable to the order of the Surface Transportation Board covering the recordation fee.

A short summary of the enclosed secondary document to appear in the Surface Transportation Board's files is as follows:

Security Agreement dated as of March 4, 1998 by Bangor and Aroostook Railroad Company, covering rail equipment.

McLachlan, Rissman & Doll

By: *John H. Doll*

MAR 9 '98

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SECURITY AGREEMENT

THIS SECURITY AGREEMENT (this "Agreement") is made as of this 4th day of March, 1998, by BANGOR AND AROOSTOOK RAILROAD COMPANY, a Maine corporation (the "Debtor"), in favor of Russell S. Penniman IV and Carol G. Penniman (the "Lender").

Recitals

The Iron Road Railways Incorporated, Debtor's ultimate parent ("Iron Road"), has borrowed \$500,000 from Lender (the "Loan"), as evidenced by, and to be repaid with interest in accordance with provisions of, a Demand Note of December 19, 1997 from Iron Road payable to the Lender (the "Note"). The Lender has required, as a condition of the Loan, the execution of this Agreement by the Debtor.

NOW, THEREFORE, in order to secure the prompt payment of the Loan, the Debtor agrees with the Lender as follows:

1. Collateral. The Debtor hereby grants to the Lender a security interest in the following property of the Debtor: the railroad cars described in Exhibit A attached hereto and made a part hereof by reference, together with (i) all additions, parts, fittings, accessories, special tools, attachments, and accessions now and hereafter affixed thereto and/or used in connection therewith, (ii) all replacements thereof and substitutions therefor, and (iii) all cash and non-cash proceeds thereof.

The term "Collateral" as used herein means each and all of the items of Collateral described above and the term "proceeds" as used herein includes, without limitation, the proceeds of all insurance policies covering all or any part of such items of Collateral.

2. Title to Collateral. The Debtor represents and warrants that it is the owner of the Collateral and has good and marketable title to the Collateral free and clear of all liens, security interests, and other encumbrances except for those in favor of the Lender.

3. Further Assurances. The Debtor will defend its title to the Collateral against all persons and will, upon request of the Lender, (a) furnish such further assurances of title as may be required by the Lender, and (b) deliver and execute or cause to be delivered and executed, in form and content satisfactory to the Lender, any financing, continuation, termination, or security interest filing statement, security agreement, or other document as the Lender may request in order to perfect, preserve, maintain, or continue the perfection of the Lender's security interest in the Collateral and/or its priority. The Debtor will pay the costs of filing any financing, continuation, termination, or security interest filing statement as well as any recordation or transfer tax required by law to be paid in connection with the filing or recording of any such statement. A carbon, photographic, or other reproduction of a security agreement or a financing statement is sufficient as a financing statement.

4. Transfer. The Debtor will not sell, lease, transfer, exchange, or otherwise dispose of the Collateral, or any part thereof, without the prior written consent of the Lender.

5. Insurance. The Debtor will at its expense cause to be carried and maintained with companies of reputable standing public liability insurance with respect to third party personal injury, property damage and casualty insurance, against such risks and in such amounts as is consistent with prudent industry practice.

6. Marking of the Railcars. Debtor will not change the reporting mark of any Railcar except in accordance with a statement of new reporting marks to be substituted therefor, which statement shall be delivered to Lender by Debtor and a supplement to this Agreement with respect to such new reporting marks shall be filed or recorded in all public offices where this Agreement shall have been filed or recorded.

7. Maintenance; Operation; Possession; Compliance with Laws. Debtor, at its own cost and expense, shall maintain, repair and keep each Railcar (i) in accordance with prudent railroad industry maintenance practices in existence from time to time, (ii) in a manner consistent with maintenance practices used by Debtor in respect of equipment owned or leased by Debtor similar in type to such Railcar, (iii) in accordance with maintenance requirements of insurance policies covering such Railcar, and (iv) in compliance, in all material respects, with all applicable laws and regulations, including any applicable Interchange Rules as applicable to continued use by Debtor.

Subject to applicable laws and regulations, Debtor shall be entitled to the possession of the Railcars and to the use of the Collateral by it upon lines of railroad owned or operated by it, upon lines of railroad over which Debtor has trackage or other operating rights or over which railroad equipment of Debtor is regularly operated pursuant to contract and on railroad lines of other railroads, in the usual interchange of traffic or in-through or run-through service and shall be entitled to permit the use of the Railcars upon connecting and other carriers in the usual interchange of traffic or pursuant to in-through or run-through agreements.

8. Taxes. Except to the extent that the validity or the amount thereof is being contested in good faith and by appropriate proceedings, the Debtor will pay as and when due and payable all taxes, levies, license fees, assessments, and other impositions levied on the Collateral or any part thereof or for its use and operation.

9. Performance by the Lender. If the Debtor fails to perform, observe, or comply with any of the conditions, terms, or covenants contained in this Agreement, the Lender, after notice to and demand upon the Debtor prior to an Event of Default and without notice to or demand upon the Debtor after an Event of Default and without waiving or releasing any Event of Default, may (but shall be under no obligation to) at any time thereafter perform such conditions, terms, or covenants for the account and at the expense of the Debtor, and may enter upon any place of business or other premises of the Debtor for that purpose and take all such action thereon as the Lender may consider necessary or appropriate for such purpose. All sums paid or advanced by the Lender in connection with the foregoing and all costs and expenses (including, without limitation, attorneys' fees and expenses) incurred in connection therewith

(collectively, the "Expense Payments") together with interest thereon at a per annum rate of interest which is equal to the then highest rate of interest charged on the principal of the Loan, plus one percent (1%) per annum, from the date of payment until repaid in full, shall be paid by the Debtor to the Lender on demand and shall constitute and become a part of the Loan secured hereby.

10. Default. The occurrence of any one or more of the following events shall constitute an event of default (an "Event of Default") under this Agreement: (a) failure of the Debtor to perform, observe, or comply with any of the provisions of this Agreement, and such failure shall remain uncured for a period of thirty (30) days after the date of written notice from the Lender to the Debtor; or (b) the failure of Iron Road to make any payment when and as required by the Note.

11. Rights and Remedies Upon Default. Upon the occurrence and during the continuation of an Event of Default hereunder (and in addition to all of its other rights, powers, and remedies under this Agreement), the Lender may, at its option, and after notice to the Debtor, declare the unpaid balance of the Note to be immediately due and payable. The occurrence or nonoccurrence of an Event of Default shall in no manner impair the ability of the Lender to demand payment of any portion of the Note which is payable on demand. The Lender shall have all of the rights and remedies of a secured party under the Maine Uniform Commercial Code and other applicable laws. Upon the occurrence of an Event of Default hereunder, the Lender or its agents may enter upon the Debtor's premises to take possession of the Collateral, to remove it, to render it unusable, or to sell or otherwise dispose of it, all without judicial process or proceedings.

Any written notice of the sale, disposition, or other intended action by the Lender with respect to the Collateral which is required by applicable laws and is sent by certified mail, postage prepaid, to the Debtor at the address of the Debtor's chief executive office specified below, or such other address of the Debtor which may from time to time be shown on the Lender's records, at least ten (10) days prior to such sale, disposition, or other action, shall constitute reasonable notice to the Debtor. The Debtor shall pay on demand all costs and expenses, including, without limitation, attorneys' fees and expenses, incurred by or on behalf of the Lender (a) in enforcing the Note, and (b) in connection with the taking, holding, preparing for sale or other disposition, selling, managing, collecting, or otherwise disposing of the Collateral. All of such costs and expenses (collectively, the "Liquidation Costs") together with interest thereon at a per annum rate of interest which is equal to the then highest rate of interest charged on the principal of the Loan, plus one percent (1%) per annum, from the date of payment until repaid in full, shall be paid by the Debtor to the Lender on demand and shall constitute and become a part of the Loan secured hereby. Any proceeds of sale or other disposition of the Collateral will be applied by the Lender to the payment of the Liquidation Costs and Expense Payments, and any balance of such proceeds will be applied by the Lender to the payment of the outstanding balance under the Note in such order and manner of application as the Lender may from time to time in its sole discretion determine. For purposes of calculating the amount of additional interest owing in the event of any such sale or other disposition, the railroad cars constituting a portion of the Collateral shall be considered to have been retained in service by Debtor.

12. Remedies Cumulative. Each right, power, and remedy of the Lender as provided for in this Agreement or in the Note or now or hereafter existing at law or in equity or by statute or otherwise shall be cumulative and concurrent and shall be in addition to every other right, power, or remedy provided for in this Agreement or in the Note or now or hereafter existing at law or in equity or by statute or otherwise, and the exercise or beginning of the exercise by the Lender of any one or more of such rights, powers, or remedies shall not preclude the simultaneous or later exercise by the Lender of any or all such other rights, powers, or remedies.

13. Waiver. No failure or delay by the Lender to insist upon the strict performance of any term, condition, covenant, or agreement of this Agreement or of the Note, or to exercise any right, power, or remedy consequent upon a breach thereof, shall constitute a waiver of any such term, condition, covenant, or agreement or of any such breach, or preclude the Lender from exercising any such right, power, or remedy at any later time or times. The Debtor waives presentment, notice of dishonor, and notice of nonpayment with respect to accounts and chattel paper.

14. Miscellaneous. The paragraph headings of this Agreement are for convenience only and shall not limit or otherwise affect any of the terms hereof. Neither this Agreement nor any term, condition, covenant, or agreement hereof may be changed, waived, discharged, or terminated orally but only by an instrument in writing signed by the party against whom enforcement of the change, waiver, discharge, or termination is sought. This Agreement shall be governed by the laws of the State of Maine and shall be binding upon the heirs, personal representatives, successors, and assigns of the Debtor and shall inure to the benefit of the successors and assigns of the Lender. As used herein, the singular number shall include the plural, the plural the singular, and the use of the masculine, feminine, or neuter gender shall include all genders, as the context may require, and the term "person" shall include an individual, a corporation, an association, a partnership, a trust, and an organization. Unless varied by this Agreement, all terms used herein which are defined by the Maine Uniform Commercial Code shall have the same meanings hereunder as assigned to them by the Maine Uniform Commercial Code.

15. Notices. All notices and other communications required or permitted under this Agreement shall be in writing and will be effective and duly given when hand delivered, when delivered by a nationally recognized overnight courier service, when delivered by facsimile (if promptly confirmed by another other means provided in this Section), or when delivered by United States Mail (by registered or certified mail, postage prepaid, return receipt requested) to the appropriate address as follows:

If intended for the Debtor, to:

Bangor and Aroostook Railroad Company
Northern Maine Junction Park
RR #2, Box 45
Bangor, Maine 04401-9602
Attn.: Robert T. Schmidt

If intended for the Lender, to:

Russell and Carol Penniman
P.O. Box 1797
Rancho Santa Fe, California 92067

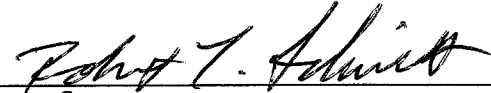
Any party may change the address to which future notices shall be sent by giving notice as provided above.

Signed as of the day and the year written above.

Attest:



Bangor and Aroostook Railroad Company

By: 

Name: ROBERT T. SCHMIDT

Title: PRESIDENT & CEO

State of Maine, County of Penobscot, TO WIT:

I HEREBY CERTIFY, that on this 4th day of March, 1998, before me, the undersigned, a Notary Public of the State of Maine, personally appeared Robert T. Schmidt, who acknowledged himself to be the President & CEO of Bangor and Aroostook Railroad, a Maine corporation, known (or satisfactorily proven) to be the person whose name is subscribed to the within instrument, and acknowledged that he executed the same for the purposes therein contained as the duly authorized President & CEO of said corporation by signing the name of the corporation by himself as President & CEO.

AS WITNESS my hand and Notarial Seal,


Notary Public

(SEAL)

My Commission Expires:

Barbara J. Veilleux
Notary Public - State of Maine
My commission expires June 6, 2002

Exhibit A

Equipment

<u>Unit #</u>	<u>Description</u>
Bar 502	F-3 1500 hp Locomotive
Bar 100	Business Car
Bar 101	Kitchen/Dormitory Car
Bar 102	Dining Car
Bar 103	Parlor Car
Bar 104	Parlor/Observation Car
Bar 105	Day/Nighter Car
Bar 106	Day/Nighter Car
Bar 110	Sleeping Car
Bar 111	Sleeping Car
Bar 112	Steam Generating Unit (SGU)
Bar 113	Steam Generating Unit (SGU)
Bar 114	Baggage Car
Bar 115	Passenger Car (Shell)
Bar 116	Passenger Car (Shell)
Bar 117	Passenger Car (Shell)
Bar 118	Passenger Car (Shell)
Bar 119	Passenger Car (Shell)
Bar 120	Power Car (Box Car)